

Service Date: October 3, 1983

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Investigation)
Of INTRASTATE ACCESS CHARGES For)
Telecommunications.)

✓ UTILITY DIVISION
DOCKET NO. 83.6.47
PROPOSED ORDER NO. 5018

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PROPOSED ORDER

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BEFORE:

THOMAS J. SCHNEIDER, Chairman
JOHN B. DRISCOLL, Commissioner
HOWARD L. ELLIS, Commissioner
CLYDE JARVIS, Commissioner
DANNY OBERG, Commissioner

FINDINGS OF FACT

1. On August 24, 1982, the United States District Court for the District of Columbia entered a Modified Final Judgment (MFJ) in the case of U.S. v. Western Electric, Inc., and AT&T, Civil Action No. 82-0192. Pursuant to the Modified Final Judgment, all Basic Operating Companies (BOC's) of the Bell System are required to file tariffs for exchange access thereby replacing the division of revenues process used to allocate revenues to a BOC for exchange access provided for interexchange telecommunications, Modified Final Judgment, Appendix B, Paragraph (B)(1). The Proposed Plan of Reorganization contemplates such access charges being effective January 1, 1984.

2. On February 28, 1983 and on August 22, 1983, the FCC released its Third Report and Order and its Memorandum Opinion and Order, respectively, in its CC Docket No. 78-72, Phase I. Therein the FCC required that all basic exchange telephone companies file tariffs for the provision of exchange access for the purpose of completing interstate interexchange telecommunications. Such access charges are to be effective for service rendered on and after January 1, 1984.

3. On April 28, 1983 the Commission staff met with interested parties, in an informal meeting, to discuss the concept of access charges and the impacts that the MFJ and the Third Report and Order in CC Docket No. 78-72 might have on Montana telecommunications rate structure. A five member industry representative committee (the Montana Industry Committee or MIC) was formed to identify and recommend issues which the Commission should address relative to exchange access services. The Committee identified seven issues in its May 25, 1983 report to the Commission. These issues are identified in Finding No. 8.

4. On June 15, 1983 this Commission initiated Docket No. 83.6.47 for the purpose of examining the seven issues identified by the Montana Industry Committee.

5. On June 28, 1983 the Commission issued a Procedural Order in this docket setting forth dates for intervention, filing of comments and reply comments, and hearing on these issues.

6. Participants offering testimony in this docket are:

AT&T Communications (AT&T)
General Telephone of the Northwest, Inc. (GTNW)
Mid-Rivers Telephone Cooperative, Inc. (MRT)
Montana Consumer Counsel (MCC)
Mountain States Telephone & Telegraph, Inc. (Mountain Bell, MBT)

Northwestern Telephone Systems, Inc. (NWT)
Rural Montana Telephone Systems (RMTS) - Composed of:
Blackfoot Telephone Cooperative, Inc.
Hot Springs Telephone Company
Interbel Telephone Cooperative, Inc.
Lincoln Telephone Company, Inc.
Mid-Rivers Telephone Cooperative, Inc.
Nemont Telephone Cooperative, Inc.
Northern Telephone Cooperative, Inc.
Project Telephone Company
Range Telephone Cooperative, Inc.
Ronan Telephone Company
Southern Montana Telephone Company
Three-Rivers Telephone Cooperative, Inc.
Triangle Telephone Cooperative Association, Inc.
Valley Rural Telephone Cooperative, Inc.

7. Pursuant to an appropriate Notice of Public Hearing, a hearing was held on August 23-25, 1983 in the auditorium in the Department of Highways Building, Helena, Montana. At the conclusion of the hearing, the parties and the Commission agreed that the Commission would issue a proposed order even though all members of the Commission had heard the case. The parties were to be allowed 15 days in which to file comments or exceptions to the proposed order.

8. The Procedural Order identified seven issues to be addressed in Docket No. 83.6.47:

- A. Long-term rate structure,
- B. Short-term, or transitional, rate structure,
- C. Cost averaging,
- D. Intra-LATA competition,
- E. Separations and Settlements,
- F. Basic Service subsidy mechanisms, and
- G. Procedure.

A. Long-Term Rate Structure

9. Traditionally, regulated telephone rate design has consisted of a process whereby embedded revenue requirement has been allocated to various

services by means of a jurisdictional separations process. This allocation consists of a formal interstate/intrastate allocation as well as a Montana rate case-related state/local¹ allocation. The end result has been "Local Exchange," "State Toll," and "Interstate Toll" rates which only coincidentally could resemble the true economic cost of producing network access and network usage.

10. The separations or allocation process at both the federal and state level has resulted in usage-related rate elements (i.e., "State Toll") which reflect arbitrary proportions of various embedded revenue requirement accounts which have no analytical correlation with the true costs associated with the production or consumption of network usage.²

11. The fundamental problem with the traditional rates is foregone benefits as a result of inefficient pricing. To the extent that "Local Exchange," "State Toll," and "Interstate Toll" are priced such that they do not properly reflect access and usage costs, and to the extent that the price elasticities of demand for these products is nonzero, the telephone industry (including competitors and competitive technologies) will be producing services which are of less total value per unit of cost than would otherwise be the case.

12. Although the fundamental problem with traditional telephone rates is foregone benefits in general, it is specifically the entry of competitors

¹ For example, see Order No. 4948, Docket No. 82.2.8, pp. 38-52.

² For example, at the federal level, on average, customer A's economic decision to consume usage is obscured by 45 percent of the revenue requirement associated with customer B's CPE (as well as inside wiring, station connections and certain obviously nonrecurring fixed costs of providing network access).

(and resulting usage price elasticity) which has lead to CC Docket No. 78-72 at the federal level and Docket No. 83.6.47 at the state level. As customers are presented with a wider variety of options from which to choose, the importance of providing the economic decision with properly structured price signals becomes of paramount importance. It is for this reason that the telephone utility industry has become adamant in proposing restructured utility rates. As customers are allowed (via bypass) the opportunity to pay the true cost of service, thus avoiding the arbitrary proportions of various embedded revenue requirement accounts, resulting consumption decisions will result in losses of net revenues.

13. At the federal level, the FCC¹ has found that interstate usage rates should reflect only traffic sensitive (TS) costs. The nontraffic sensitive (NTS) revenue requirement "allocated" to "interstate toll" would either be phased off the books or eventually reflected in flat monthly NTS rate elements.

14. At the state level, the Commission has previously indicated the importance of aligning rate elements with the true cost of service:

It is essential that the problem of relating the categorized "State Toll" and "Local Exchange" costs to rates be addressed. If it is intended that "State Toll" is to represent monthly useage rates sensitive to useage of the regulated network and "Local Exchange" is intended to represent flat nontraffic sensitive charges, then the reason for including NTS costs in the former and TS costs in the latter must be established. (Finding No. 115, Order No. 4948, Docket No. 82.2.8)

¹ MTS and WATS Market Structure, Third Report and Order, CC Docket No. 78-72, February 28, 1983.

15. The proposition that long-term rate structure goals include TS and NTS rate elements reflecting TS and NTS costs, respectively, has near unanimous support in Docket No. 83.6.47¹. The RMTS (Exh. RMTS-1, p. 9) maintain that the economic well-being of the rural telephone companies is the primary concern and to the extent it is threatened by such a structure, the structure is faulty. The MCC (Exh. MCC-1, p. 3) argues that the NTS/TS structure ignores subscriber externalities and in its reply comments (Exh. MCC-2) argues that what has traditionally been classified as NTS costs, in actuality, reflect some costs which are truly TS.

16. The Commission finds that it is not necessary to arrive at a specific long-term rate structure solution in Docket No. 83.6.47. Establishing a specific long-term rate structure requires a more elaborate examination of both cost of service and rate alternatives. For example, declining block usage rates could represent an opportunity to more closely align usage rates with costs while preserving affordable access. However, for purposes of defining a transitional goal, it is evident that traditional telephone rate design has resulted in network usage prices which reflect various amounts of embedded revenue requirement which have no correlation with costs². Furthermore, it is evident that network usage services are the most price-elastic network service provided by the telephone industry.

17. As a transitional goal, the Commission finds that at least some transfer of recovery of embedded revenue requirement from network usage rate elements is both necessary and beneficial, as well as unopposed.

¹ Exh. MBT-1, p. 7, Exh. NWT-1, pp. 1-2, Exh. GT-1, p. 1, and Exh. AT&T-1, p. 6.

² No participating party maintains that existing usage rate elements do not reflect some NTS revenue requirement.

B. Short-Term or Transitional Rate Structure

18. In response to issue B, the participating parties submitted positions which generally reflected either a mirroring of the FCC transition (with the exception of premium access and percent NTS transfer; Exh. MB-1, NWT-1, GT-1 and AT&T-1) or creation of a new MTS (and like) rate element (Exh. RMTS-1 and MCC-1).

19. Of immediate importance in this Docket, however, is a rate structure to be implemented on January 1, 1984. As such, the Commission chooses to not pursue a transition plan, beyond 1984.

20. In its simplest form, the issue to be resolved is what combination of MTS (and like services)¹ rates, carrier access charges, and a state customer access line charge (State CALC) will be structured to reflect NTS revenue requirement now recovered through MTS rates, for purposes of 1984.

21. It is this short-term or transitional structure which is a subject of the Montana Industry Committee's proposal (Exh. MIC-1). The MIC proposal consists of three primary elements:

- 1) carrier access charges which mirror the federal charges,
- 2) carrier access charges for competitive carriers equal to those for AT&T Communications, and
- 3) a 10% shift of NTS revenue requirement from MTS rates to a state CALC capped at \$2.00 per month per line for both business and residential customers. (Exh. MIC-1, p. 3)

¹ Hereafter, all references to MTS are deemed to include "and like services."

22. The MIC proposal has the endorsement of every participating party.

23. The arguments in support of state carrier access charges mirroring the federal charges are three-fold:

- 1) establishing federal access charge tariffs by January 1, 1984 will be difficult; establishing a second state-level set of tariffs would be even more administratively difficult, if not physically impossible¹;
- 2) the identical costs are incurred whether an exchange carrier is handling an intrastate or interstate message; and
- 3) it is not evident that the exchange carriers have the technical capability to detect whether a message is intrastate or interstate for billing purposes.

24. In light of the supporting arguments and the consenses of all participating parties, the Commission finds that for purposes of 1984 the state carrier's access charges should mirror the federal charges. The Commission also accepts the MIC proposal that carrier's access charges for competitive carriers "match charges determined for ATTIX, assuming comparable technical connections are available." (Exh. MIC-1, p. 3).

25. The MIC proposal featuring a 10 percent shift of NTS revenue requirement to a state CALC capped at \$2.00 per month per line is uncontested.

26. The MCC does object to the NTS basis utilized by MBT to which the 10 percent factor is applied. The MCC argues that MBT's NTS base

¹ The access tariff includes dozens of rate elements reflecting various services provided by the exchange carrier to inter-city carriers.

includes embedded accounts which are truly TS, and as such, should be excluded from the calculation. MBT maintains that the NTS basis reflects the FCC's Part 67 rules, is used uniformly by all 14 companies, and properly reflects the NTS basis.

27. The Commission would observe that it is not clear whether all companies have accounting formats which uniformly allow them to make revisions to the Part 67 NTS basis. It is also not clear whether having one company deviate leaves the other 13 companies unaffected.

28. The Commission would also point out that it does not appear to be contested that at least 10 percent of the total Part 67 basis currently reflected in usage rates is truly not related to incremental consumption of usage. For these reasons, the Commission accepts the 10 percent transfer, the Part 67 basis, and the state CALC capped at \$2 per line. The Commission would indicate that identification of cost components, now classified as NTS, which are truly TS remains an issue that warrants examination in the future.

29. The MIC proposal included two calculations of state CALC (Exh. MIC-2 and MIC-3) -- with and without CPE revenue requirement. The Commission finds that the state CALC should not include CPE requirements.

30. The Commission further finds that implementation of the MIC proposal necessitates that offsetting rate adjustments be considered.

31. This proceeding has been characterized throughout as a consideration of rate structure rather than of consideration of proposed rate increases to provide rate relief. For example, Mountain Bell described its access charge proposal as follows:

These access charge proposals will not result in an increase in Mountain Bell's revenues nor will they increase our earnings. While much has been written lately concerning possible increases in the price of telephone service as a result of access charges, it is important to realize that any increase in the bills of some customers will be offset by decreases in the bills of others. Thus access charges do not represent an increase in rates but rather accomplish a redistribution of our prices to recover our costs on a cost sensitive basis. (Initial Comments of Mountain Bell, Volume 1 of 2, p. 4)

32. At the heart of the Montana Industry Committee (MIC) proposal (Exh. MIC-1) is the provision that 10 percent of NTS costs which had historically been recovered through MTS usage charges, be recovered in the future through state CALC charges. This aspect of the plan creates a new source of revenues for the local operating companies. In order for this proceeding to retain its rate-structure-only character, it is therefore necessary to make offsetting rate adjustments to avoid granting additional overall revenues to the companies.

33. In this case the new source of revenues (state CALC) has not been associated with any increased revenue requirement due to either an increase in rates or a decrease in revenues. The state CALC revenues are not generated by introducing some new service offering supported by new plant and expenses. Nor are the state CALC revenues related to any associated decrease in other company revenues. As will be discussed later, the Commission rejects Mountain Bell's contention that any net decrease in revenues due to divestiture should be considered in this docket and recovered through state CALC charges.

34. In the case of Mountain Bell, the introduction of state CALC revenues without any further rate adjustment would result in increased

revenues for the Company. Mountain Bell's proposed state CALC is made up of two elements (TR. Vol. 4, p. 455). The first element, encompassed in the MIC proposal, involves a shift of the recovery of 10 percent of the NTS costs associated with access to the intra-LATA MTS network. Mountain Bell currently recovers those costs from revenues received from intra-LATA MTS services net of settlement payments. If there were no offsetting downward adjustment to intra-LATA MTS rates, Mountain Bell would continue to recover the NTS costs in question both through intra-LATA MTS rates and again through the intra-LATA element of a state CALC.

35. Mountain Bell would realize even further increased revenues due to the effect of the MIC proposal on the settlements process. Currently the payments to independent companies out of the settlements pool is based in part upon 100 percent of the independents' NTS costs associated with access to the toll network. Under the MIC proposal, those settlement payments would be based on only 90 percent of the independent's NTS costs. (Exh. MIC-1, p. 5, paragraph E) Consequently, the amount Mountain Bell pays for settlements out of the settlement pool would go down while the amount flowing into the pool would remain the same if there were no offsetting downward adjustment to intra-LATA MTS rates. This would result in increased revenues to Mountain Bell.

36. Independent companies who opt to participate in the settlements pool pursuant to the MIC proposal would see a new source of revenue (state CALC charges) equal to 10 percent of their NTS costs associated with access to the toll network. However, at the same time, they would realize an offsetting decrease in the revenues that they receive from the settlements pool (formerly 100 percent of NTS costs, now only 90 percent of NTS costs).

37. In order to retain the rate-structure-only character of this docket, the Commission deems it appropriate to make the following directive. As the independent companies' state CALC's and Mountain Bell's intra-LATA state CALC element are implemented there must be a simultaneous reduction in the intra-LATA MTS rates. The decrease in intra-LATA MTS rates should be at the level necessary to generate a revenue reduction equal to the total revenue generated by all of the state CALC's just mentioned. Such a reduction in intra-LATA MTS rates will serve to offset the revenue Mountain Bell will generate from the intra-LATA element of its state CALC as well as to keep the settlements pool in balance.

38. The reduction in intra-LATA MTS rates is further necessary in order to carry out one of the articulated purposes of adopting access charges. That is, to begin shifting the recovery of NTS costs from usage charges to end user flat charges. A "shift" implies movement from one place to another. Without a decrease in intra-LATA MTS rates there would be no movement of the recovery of 10 percent of NTS costs from MTS usage rates to end user CALC's.

39. The reduction in intra-LATA MTS rates is consistent with Mountain Bell's statement that "any increase in the bills of some customers will be offset by decreases in the bills of others."

40. The second or inter-LATA element of Mountain Bell's proposed state CALC is based upon a perceived revenue deficiency caused by the removal of inter-LATA and other operations at divestiture (Exh. MB-1, Attachment C). Mountain Bell points out that at the time of divestiture it will relinquish, inter alia, revenues it has historically received from intra-state inter-LATA MTS services. At the same time, Mountain Bell will be

relieved of all of the costs of its inter-LATA operations. However, the Company maintains that the lost revenues will greatly exceed the lost costs. In other words, intrastate inter-LATA revenues have exceeded intrastate inter-LATA costs and have historically provided a contribution to the overall operations of Mountain Bell. The Company proposes that the amount by which the lost revenues exceeds the lost costs (net of carrier's access charge revenues) should be quantified in a Phase II of this docket and recovered through an inter-LATA state CALC element.

41. The Commission rejects Mountain Bell's method of arriving at an inter-LATA state CALC element. In doing so it is not necessary for the Commission to dispute Mountain Bell's contention that lost revenues at divestiture will exceed lost costs. Rather, the Commission rejects the proposal because it is premised upon the recognition of a projected revenue deficiency. As was discussed earlier, this docket has been created and conducted as addressing rate structure only. The Commission agrees with Consumer Counsel's assessment that Mountain Bell's proposal in this regard is tantamount to a request for rate relief. Nowhere in the Order Initiating Docket or more importantly, the Notice of Public Hearing, is there any indication that this docket would consider requests for rate relief.

42. To the extent that Mountain Bell wishes to seek rate relief to recover any revenue deficiency caused by divestiture it should apply for such relief in a separate docket. The issues associated with divestiture are much broader than the narrow confines of this docket which focussed primarily upon the recovery of NTS costs involved in providing access to the intrastate toll network. A separate docket would allow the Commission and all interested parties to more clearly focus upon divestiture-related issues.

Any such filing shall contain a detailed listing of costs that will be transferred to AT&T. Both companies should agree to the items and costs transferred so that any chance of double recovery is eliminated.

43. The Commission recognizes that the time of divestiture is fast approaching. It appears unlikely that final consideration of a divestiture-related revenue deficiency case could be completed by January 1, 1984. Therefore it appears that such a case might appropriately include consideration of interim relief to be in place on January 1, 1984.

44. Having removed the issue of a divestiture-related revenue deficiency from this docket, the question remains whether there should nevertheless be a shift of some portion of NTS costs associated with access to the intrastate inter-LATA network similar to the shift occasioned by the implementation of a Mountain Bell intra-LATA state CALC element. The same rationale which supported the shift of recovery of 10 percent of NTS costs from intra-LATA MTS rates to an intra-LATA state CALC element would appear to support a similar transfer of recovery of NTS costs from intrastate inter-LATA MTS rates to an inter-LATA state CALC element.

45. Under Mountain Bell's proposal in this docket, the shift of cost recovery from intrastate inter-LATA MTS revenues to an inter-LATA state CALC element would have included the entire divestiture-related revenue deficiency. There is no indication that such a shift would have consisted of NTS access costs only. Nor is it possible to determine what percentage of NTS access costs would in fact have been shifted in this manner. The Commission therefore has rejected a shift based entirely upon a divestiture-related revenue deficiency. Instead the Commission concludes that any shift of cost recovery to an inter-LATA state CALC element should consist only of

10 percent of the NTS costs associated with providing access to the intra state inter-LATA MTS network. This would make the inter-LATA state CALC element consistent with the intra-LATA state CALC element.

46. Therefore Mountain Bell is directed to identify NTS costs associated with access to the intrastate inter-LATA network and to calculate a potential inter-LATA state CALC element that would spread 10 percent of those costs to all Mountain Bell customers in the same manner as the intra-LATA state CALC element.

47. Mountain Bell's intra-LATA state CALC element is to be implemented on January 1, 1984 simultaneously with the earlier-described reduction in intra-LATA MTS rates. A rate adjustment capable of offsetting the revenue generation of an inter-LATA state CALC element is more difficult to develop. A simultaneous reduction in intrastate inter-LATA MTS rates would not accomplish the offset. This is because AT&T Communications and not Mountain Bell will be providing intrastate inter-LATA MTS services after January 1, 1984. Therefore, although Mountain Bell would experience increased revenues with the implementation of an inter-LATA state CALC element, Mountain Bell would not experience an offsetting decrease in revenues even if intrastate inter-LATA MTS rates were reduced.

48. Therefore the Commission finds that although a potential inter-LATA state CALC element for Mountain Bell should be identified in this docket, it should not be implemented until an appropriate offsetting rate adjustment has also been developed. Increased revenues from an inter-LATA state CALC could conceivably be offset by a reduction in other Mountain Bell rates or they could be offset by the recognition of a revenue deficiency whether divestiture-related or otherwise.

49. The rates that AT&T Communications will be authorized to charge for intrastate inter-LATA MTS service will be based in large part on the level of carrier's access charges that AT&T Communications is required to pay to Mountain Bell. The level of those access charges will mirror the FCC carrier's access charges and therefore will not be dependent upon whether or not an inter-LATA state CALC element is implemented for Mountain Bell customers. Nevertheless, there will be a shift of NTS cost recovery away from intrastate inter-LATA MTS revenues that is inherent in the divestiture process. A certain amount of NTS costs were recovered through revenues from Mountain Bell's intrastate inter-LATA MTS services. Those MTS revenues will shift to AT&T but the NTS costs (e.g. local loop costs) will stay behind with Mountain Bell. To the extent that those NTS costs exceed the NTS cost recovery in the carrier's access charge there will have been a shift of NTS cost recovery away from intrastate inter-LATA MTS services. Therefore, customers will be justified in expecting intrastate inter-LATA MTS rates to go down for the same reasons that intra-LATA and interstate MTS rates will go down.

50. The appropriate level for intrastate inter-LATA MTS rates will of course be thoroughly examined at the time when AT&T Communications proposes tariffs for that service.

C. Cost Averaging and D. Intra-LATA Competition

51. Although initially identified as separate issues, upon examination, cost averaging and the desirability of intra-LATA competition appear to be the same issue.

52. The arguments fall into three general categories. The telephone utilities, with the exception of the RMTS, are of the position that competition cannot be prevented and, to the extent that the utilities are allowed the flexibility to compete, it should not be prevented. However, regulated, averaged rates featuring geographic areas priced above cost will not survive in a competitive arena and therefore require protective constraints on competitive pressures (Exh. MBT-1, p. 27, NWT-1, p. 3, GT-1, p. 2).

53. The RMTS maintain that cost averaging is necessary to keep rural service affordable and, to that extent, competition must be effectively constrained (Exh. RMTS-1, p. 17). In contrast, the MCC's position is that competition results in a healthy influx of lower cost technology and, as such, should be pursued, not constrained (Exh. MCC-1, p. 16, TR. pp. 333-334, 390-392).

54. The Commission recognizes the importance of this issue and chooses to defer treatment until such time as a more comprehensive examination is provided.

E. Separations and Settlements

55. In the Procedural Order the Commission requested that all parties comment on the appropriate structure to replace the separations and settlements procedures currently in place. All parties commenting on separations agreed that the separations procedures used to determine access charges should be based on the separations process decided on by the "Joint Board," currently undergoing revision in CC Docket No. 80-286.

56. MBT stated that settlements procedures should be a matter negotiated between the telephone companies. MBT submitted a proposed settle-

ment process whereby intra-LATA toll revenues and costs (excluding any NTS costs recovered through end-user charges) would be pooled. Net revenues would be distributed based on the pool's achieved rate of return. (Exh. MBT-1).

57. All other parties suggested replacing the current settlements procedures with an access charge system or a combination of access charges and a universal service fund.

58. The MIC proposal included a recommendation for 1984 settlements procedures. The MIC recommendation included creating an intrastate toll pool. Exchange carrier participation in the pool would be optional. Revenues from intrastate toll and carrier's carrier access charges would be pooled. Each member would receive its intrastate toll traffic sensitive revenue requirement and 90 percent of its toll nontraffic sensitive revenue requirement from the pool. Ten percent of the NTS revenue requirement for each member would be recovered through end user charges on a "bill and keep" basis. Part 67 and Part 69 of the FCC Rules would be used to define costs and the frozen subscriber plant factor would be used to determine the intrastate portion of those costs. The return component of the pool members' intrastate toll revenue requirement would be based on the Mountain Bell's achieved return on the intrastate rate base of its Montana operations. Mountain Bell would administer the pool. (Exh. MIC-1)

59. Exchange carriers not wishing to participate in the pooling arrangement would be treated as intercity carriers and be assessed access charges on a terminating basis. These carriers would also assess other carriers access charges on a terminating basis. (Exh. MIC-1)

60. Average schedule exchange carriers could elect to participate in the pooling arrangement by contributing their revenues from intra-LATA toll services and intrastate toll access services and receiving a computed average settlement from the pool. (Exh. MIC-1) The RMTS testified that average schedule companies do not currently develop detailed cost studies and to do so may be very expensive. The needs of average schedule companies should be examined to avoid substantial adverse impacts on these companies. (Exh. RMTS-1)

61. There was no testimony submitted addressing the relative impacts on Montana telephone companies of various settlement procedures. In analyzing the initial comments of various companies, there seems to be fairly wide spread support for replacing settlements with a system of access charges. However, this would require all telephone companies to establish access charge tariffs. Small companies may not be able to do so by 1984.

62. All parties agreed that the MIC proposal was satisfactory for 1984. The Commission finds that the settlement arrangement contained in the MIC proposal is acceptable for 1984 and should be used until the Commission further investigates this area. However, the Commission intends to monitor the effects of this system and have further information submitted in future access charge filings. The Commission directs companies to calculate the impacts of replacing the MIC settlement proposal with an access charge system and submit that information in the next access charge proceeding.

F. Basic Service Subsidy Mechanisms

63. Parties offered varying viewpoints on the need for a basic service subsidy. Various parties supported no subsidies, targetted subsidies, and

blanket subsidies. Viewpoints also differed on how any subsidy should be administered. The MIC proposal included a \$2 cap on state CALC's in 1984. Any amount in excess of the cap would be funded through a Montana Universal Service Fund (MUSF). The MUSF would be funded through a uniform flat surcharge (¢ per customer) on all exchange customers in the State of Montana. Glenn Brown testifying on behalf of the MIC stated that the anticipated need for such funding in 1984 would be small. Mr. Brown estimated the 1984 surcharge would be 3¢ per customer per month.

64. The Commission finds the MIC proposed MUSF desirable for 1984. By instigating a MUSF at this point, when the effects of increasing flat charges are unknown, it will be assured that no company's customers will be disproportionately burdened. Mountain Bell will administer the MUSF at least through 1984.

65. The Commission intends to closely monitor the effects of increasing flat rates on telephone subscribers. Each company is directed to track subscriber drop off and to the extent possible determine what portion is caused by increases in monthly flat rates and file this information in each access charge proceeding. Companies are also directed to submit the amount received through the FCC established USF.

G. Procedure

66. Further proceedings on the access charge issues are expected to consist of the following:

- a) The MIC is directed to file for review and approval no later than November 15, 1983, state CALC's, including an intra-LATA state CALC element for Mountain Bell pursuant to the MIC proposal and

the findings stated herein. Upon approval, such CALC's would be effective January 1, 1984.

- b) The MIC filing is to include the total state CALC revenue figures necessary to calculate the MTS rate offset described in Finding No. 37.
- c) Mountain Bell is directed to file MTS tariffs reflecting the MTS rate offset described in Finding No. 37.
- d) Mountain Bell is directed to identify and submit a potential inter-LATA state CALC element as described in Finding No. 46.
- e) The Commission staff will review the above-filings to assure that they are in compliance with this order. The staff is authorized to conduct meetings with the parties if necessary for clarification. The Commission does not anticipate any further formal proceedings in this docket.

67. Concerning related issues:

- a) If Mountain Bell desires to pursue recovery of a perceived divestiture-related revenue deficiency, it is expected to make separate application for the same. Given the fast approach of the divestiture date, any such application should be made post haste.
- b) The potential Mountain Bell inter-LATA state CALC element could be implemented in conjunction with any recognized divestiture-related revenue deficiency (interim or otherwise) or in conjunction with any recognized revenue deficiency from Mountain Bell's general rate case, Docket No. 83.3.18.
- c) AT&T Communications is directed to file proposed tariffs for intra-state inter-LATA services by November 15, 1983. Approval of

such tariffs may be considered on an interim basis. However, final approval will be given only after a complete examination of AT&T Communications' intrastate revenue requirement.

68. The findings and conclusions expressed in this order relate only to implementation for 1984. The Commission anticipates addressing access charge issues again in 1984. Hopefully, conditions will allow for a less hurried examination at that time.

CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the investor-owned telephone companies providing telephone service in Montana pursuant to Title 69, Chapter 3, MCA. The telephone cooperative companies who participated in this docket have done so voluntarily with the understanding that such participation in no way confers jurisdiction over their operations.

2. The rates resulting from the rate restructuring contained herein are just reasonable and not unjustly discriminatory, 69-3-201, MCA.

3. Provisions of the Montana Administrative Procedures Act governing proposed orders (3-4-621, MCA) are not applicable to this order, since a quorum of Commissioners heard the case.

ORDER

Pursuant to the Commission's adoption of the parties' agreement as to post-hearing procedure, this constitutes a Proposed Order by the Commission. The proposed findings and conclusions of the Commission are


contained in the foregoing findings of fact and conclusions of law. Final ordering provisions on the merits will be set forth in the Final Order.


Parties have 15 days from the service date of this Proposed Order in which to file comments, exceptions and proposals for the Commission's consideration in its final order.

DONE AND DATED this 3rd day of October, 1983 by a vote of 4 - 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.



Thomas J. Schneider, Chairman


Howard L. Ellis, Commissioner


Clyde Jarvis, Commissioner


Danny Oberg, Commissioner

ATTEST:


Madeline L. Cottrill
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten days. See 38.2.4806. ARM.